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SUBJECT: LEADING PSDB PRESIDENTIAL CONTENDERS STEER AWAY
FROM PRIMARY SPLIT

11. (SBU) Summary: In the past week, potential candidate for the Democratic Socialist Party of Brazil (PSDB) presidential nomination and current Minas Gerais Governor Aecio Neves -- though still a candidate for the PSDB nomination -- has backed off from his former insistence that the party must hold a presidential nominating primary, a key demand that had been the cornerstone of Neves' challenge to PSDB nomination front-runner, Sao Paulo State Governor Jose Serra. Neves' re-positioning is probably driven in part by recent polling that shows Serra with a commanding lead over likely PT nominee Dilma Rousseff. His sudden flexibility is good news for Serra and for the PSDB. The party can now avoid a debilitating knock-down, drag-out fight for the nomination and concentrate on honing its emerging message, which would appear to be an appeal for greater decentralization in the administration of the country. End Summary.

No Primary Needed

12. (SBU) For the last year, Minas Gerais Governor Neves has insisted that the PSDB had to hold a primary to pick its presidential nominee. Such a mechanism represented Neves' best and perhaps only hope to challenge PSDB nomination front runner Jose Serra and, thereby, emerge as the principal opposition candidate to ruling Workers' Party (PT) candidate Dilma Rouseff. Serra is widely viewed a taciturn technocrat who enjoys the support of the PSDB leadership, while Neves, the young, charismatic governor of one of Brazil's most economically and historically significant states, has demonstrated a great ability to excite the party base and reach out to those outside the PSDB. The contest between these two PSDB heavyweights worried some in the party who feared a debilitating intra-party struggle that reminded them of 2002, when then-candidate Jose Serra failed to pull together all elements in the PSDB and subsequently lost the election to President Lula. What's more, the PSDB has never held a primary, and guidelines and standards for such a national event would have had to be drawn up from scratch. Finally, until recently, some had speculated that Neves might bolt the PSDB entirely and seek the PMDB nomination, splitting the anti-PT vote and significantly damaging PSDB chances in the 2010 presidential contest.

Insiders Talk of a Deal

13. (SBU) In contrast to surface tensions, in recent weeks political insiders have spoken of the growing possibility of an agreement between Serra and Neves, where Serra would get the PSDB presidential nod and Neves the Vice Presidential spot. Journalist William Waack stated at a lunch with the CG on September 4 that Serra and Neves had already sealed the deal, agreeing to run together with Serra at the top of the ticket. A second participant at the event, Fernando Henrique Cardoso (FHC) Institute Director Sergio Fausto expressed surprise at Waack's assertion, but added that FHC would not permit the Serra-Neves rivalry to split the party. A Serra-Neves combination would unify the PSDB and could prove formidable. Both governors are highly popular in their respective states (recent polls give Serra 77 percent approval in SP and Neves has over 90 percent approval in MG) and they have contrasting, but potentially complementary political styles.

Neves Shifts Rhetoric

14. (U) In an interview in Belo Horizonte September 9, Neves indicated that while he continues to prefer a PSDB primary, other "instruments" for choosing a candidate exist, including polls and other mechanisms for consulting the party base. Since his interview, Neves has made

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several statements emphasizing his good relations with Serra. In a joint appearance September 14 in Sao Paulo with former President Fernando Henrique Cardoso, Serra and Neves spoke of party unity and their willingness to offer support to each other, whichever candidate wins the eventual PSDB nomination. Neves reiterated his preference for a party primary, but did not make it an absolute demand. Both emphasized the importance of their respective states in maintaining autonomy relative to a central government that they said is too centralized and collects too much in taxes.

Neves Looking to the Future?

15. (SBU) While the press buzzes about a "pact" between Serra and Neves, local analysts point to a more subtle but still significant understanding. Consultant Thiago d'Aragao told Poloff that Neves had "no choice" but to become more accommodating to Serra and the PSDB. The PMDB is hurt by recent scandals and cannot provide an adequate platform for Neves' future ambitions. The Minas Governor has excellent chances of becoming Brazil's President some day, but he must bide his time. Political Scientist Rogerio Schmitt of the Center for Public Leadership agreed, stating that he and other SP analysts regard Neves' new line as laying the groundwork for a graceful exit from his campaign for the PSDB nomination, should his challenge not prosper.

Comment: Not a Pact, But A Most Productive Understanding

16. (SBU) While it could be too much to call the new relationship between Serra and Neves a pact, it would appear that Neves has walked back from a potentially party-splitting confrontation with the Sao Paulo Governor. Neves' re-positioning comes on the heels of a late August IBOPE poll that gave Serra a commanding lead over PT leading candidate Dilma Rousseff in a potential second round run-off (57-23). This, plus the logistical challenges of organizing a first-ever PSDB primary, probably

convinced the Minas Governor to moderate his position. As things now stand, Neves can continue his quest for the party's nomination, but do so within bounds that would not foreclose reconciliation at the end of the process.

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